



Fiscal Year 2011-2012

Budget Balancing Strategies and Labor Relations Guidelines

March 1, 2011



BUSINESS Cassidy: College degree? Not if you're starting a tech company

QUIET, ASSURED

Kawakami: 49ers head coach is not as brash, but make no mistake, Harbaugh remains unbowed and unchanged



DEAL OF THE DAY
Baby News Warehouse
Outlet and website
50% off
on select baby products for sale
See a Mom & Me's
at babywarehouse.com

San Jose Mercury News

Friday, February 18, 2011

75 CENTS VALLEY 100
847 NEWS COVERAGE ON WWW.MERCURYNEWS.COM

BAY AREA NEWS GROUP
2.7 MILLION READERS WEEKLY IN PRINT AND ONLINE

REAL ESTATE MARKET

House

PUBLIC GIFT

A10 BAY AREA NEWS GROUP 100

Opinion

www.mercurynews.com/opinion

San Jose Mercury News

A MediaNews Group NEWSPAPER

Editorial board

MAC TULLY, President and publisher

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

DAVID J. BOUTIN

Editorial

There will be no quick recovery for government

For California cities and counties facing grim revenue prospects for next year and beyond, the news is grim. That's not only because of the recession, but also because of the federal stimulus money is going away. Nonprofits can't fill the gap in human services because they already do much of the counties' work — and count on county and city money to cover the costs.

Friday, at the annual State of the Valley conference convened by the Silicon Valley Community Foundation and Joint Venture Silicon Valley Network, leaders will be asked to face that old head-on if they haven't already.

Some elected officials — San Jose Mayor Chuck Reed, for example — have been sounding the alarm, predicting that revenue for cities and counties will not jump right back when industry rebounds. It never really recovered from the recession of the early 2000s — San Jose is in its 10th year of budget cutting.

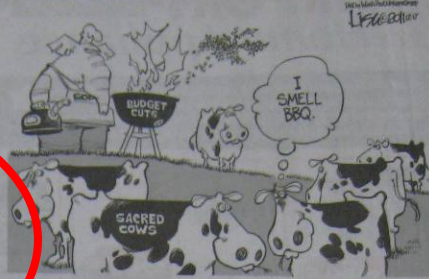
Maintaining the status quo is no longer an option. Rather, as Emmett Carson says, we have to decide what kind of community we want to be, given the resources at hand.

tion. It has been looming for the better part of a decade. San Mateo and Santa Clara counties may be in worse shape than some, but since their reserves are depleted, and federal stimulus money is going away. Nonprofits can't fill the gap in human services because they already do much of the counties' work — and count on county and city money to cover the costs.

Of course, the depth of the crisis differs. Palo Alto will not need the degree of service cuts all but inevitable in San Jose, which faces a \$110 million deficit. And the degree to which things like public employee pensions — which have become lightning rods — contribute to the problem also differs from city to city. Carson says public

cuts all but inevitable in San Jose, which faces a \$110 million deficit. And the degree to which things like public employee pensions — which have become lightning rods — contribute to the problem also differs from city to city. Carson says public

Cartoonist's view



LUKE REYNOLDS/REYNOLDS & REYNOLDS FOR THE WATSON GROUP

Readers' letters

Social networks' revolution hits here

Twitter, Facebook, Google and other social media created here in Silicon Valley have transformed the simple act of "let's organize a party" in an hour to "let's organize a protest/revolution."

As we sit and watch passively the protests in Egypt, Yemen, Iran, Bahrain and other Middle East countries, it's easy to overlook the growing distrust of government and private institutions here in the United States, but it will be here in the United States. Pay attention to Madison, Wis., and the protests that have just begun over government cuts affecting students, public employees and their pensions. Social revolution? It's not just "over there." It's coming to a city and state near you and things are not likely to ever be the same anywhere in the world — including here.

Dave Setnick
San Jose

Welcome your
commuter overload

HOW TO HAVE YOUR SAY

Letters of up to 125 words will be considered for publication. All letters must include a full name, address and daytime phone number plus any affiliations that would place your opinion in context. The full letter policy, and additional letters, are available at mercurynews.com/opinion.

E-mail: letters@mercurynews.com (no attachments)
Mail: 750 Ridder Park Drive, San Jose, CA 95130
Fax: 408-271-3792
Phone: 408-920-5572

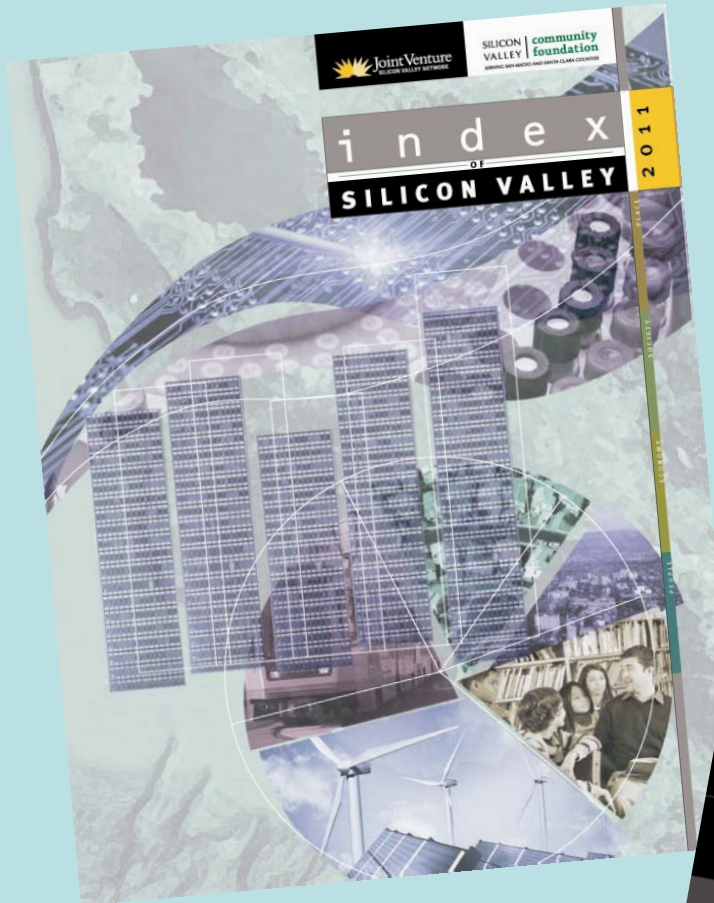
vacate the pure retirement system altogether. In 1986, Congress created the Federal Employees Retirement System, a hybrid system in which both employer and employee pay into Social Security and the employer matches a certain percentage of the employee's contribution into a 401(k) or similar retirement account. A fair employer percentage would be 10 percent for general

but the real manipulation may be when oil prices go down. Cheap oil allows us to get complacent about buying gas-guzzling vehicles, living too far from work, avoiding the use of public transportation and buying gasoline-sucking recreational toys. How long will this manipulation go on? For decades so far, and we don't seem to get it.

C.D. Kennedy
San Jose

State must mandate cleaner car rules

It shouldn't take a bipartisan consensus to recognize that California's drivers need to reduce their oil consumption. Cars are the largest source of greenhouse emissions in the state. This is why we have the 10 most polluted cities in the country, with one out of every six children suffering from asthma. The best way to solve these problems is to get more electric cars on the road. With Gov. Jerry Brown and the California Air and Resource Board voting on



March 1, 2011



- Fiscal Outlook
- Budget Strategies
- Labor Relations Guidelines



Fiscal Outlook

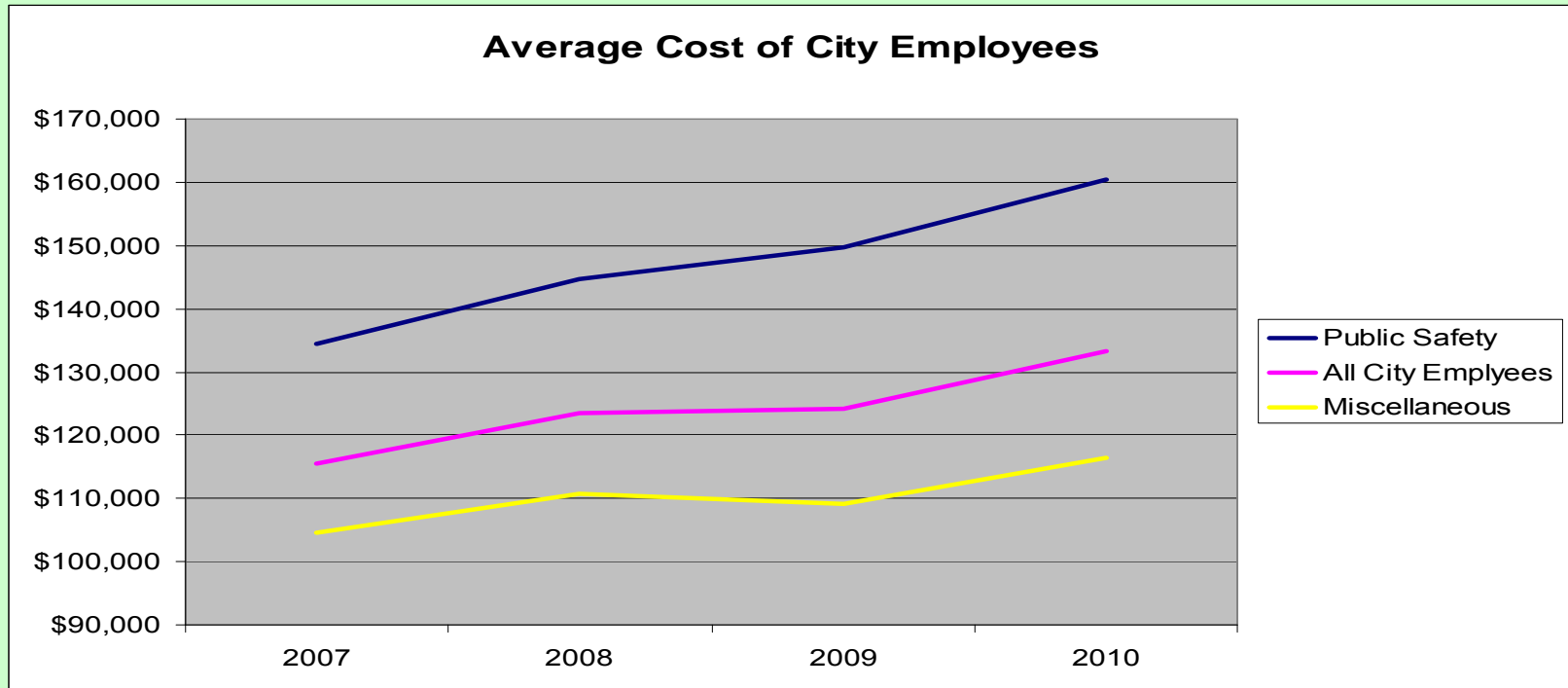
- A long history of dealing with budget challenges (since the early 1990s)
- Current recession longest and deepest since the Great Depression
- Gap between economic recovery and local government recovery can be 18 months to several years



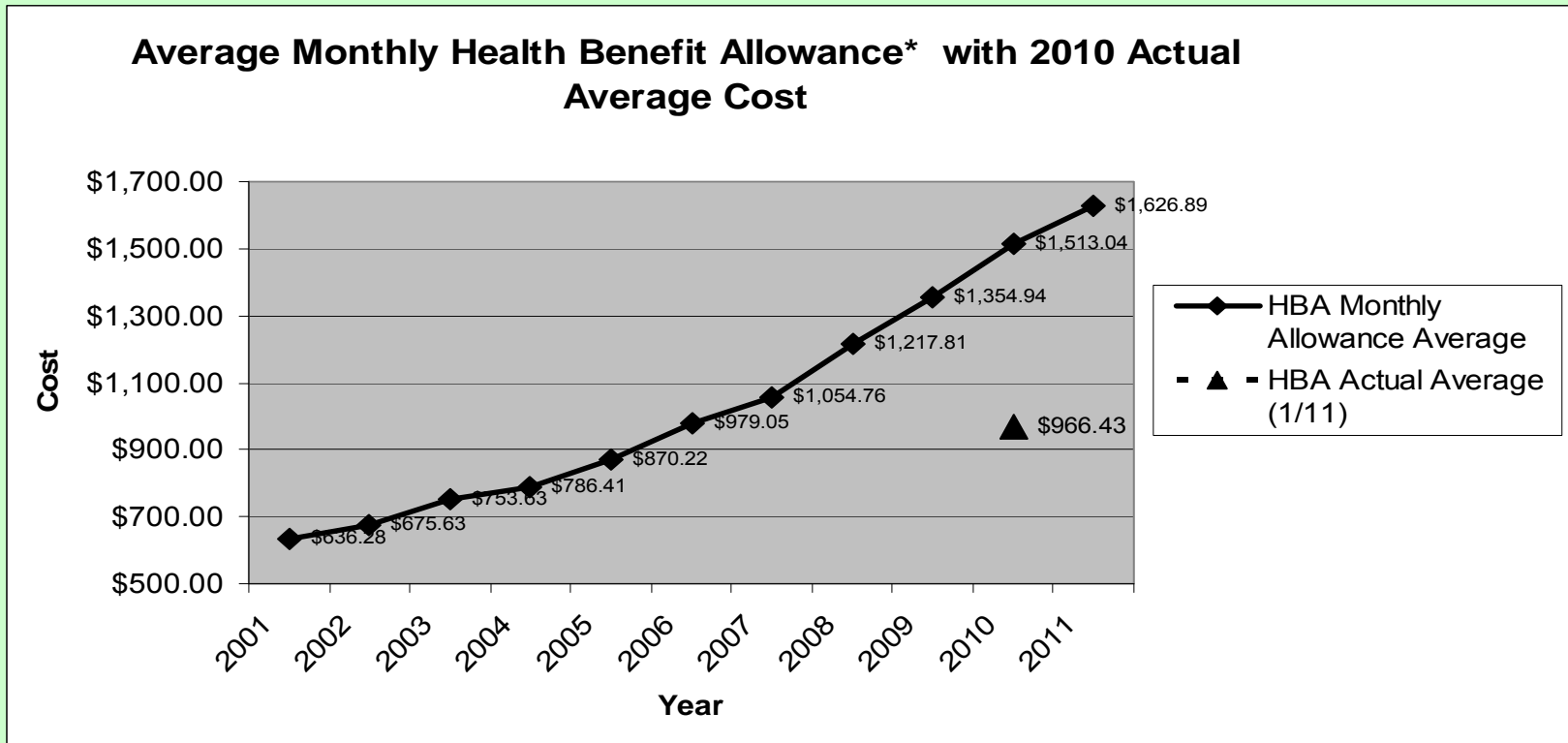
Fiscal Outlook

- The worst may be over – no “double dip”
- Challenges still remain
 - High unemployment
 - Housing slow to recover
 - Retirement fund investment losses

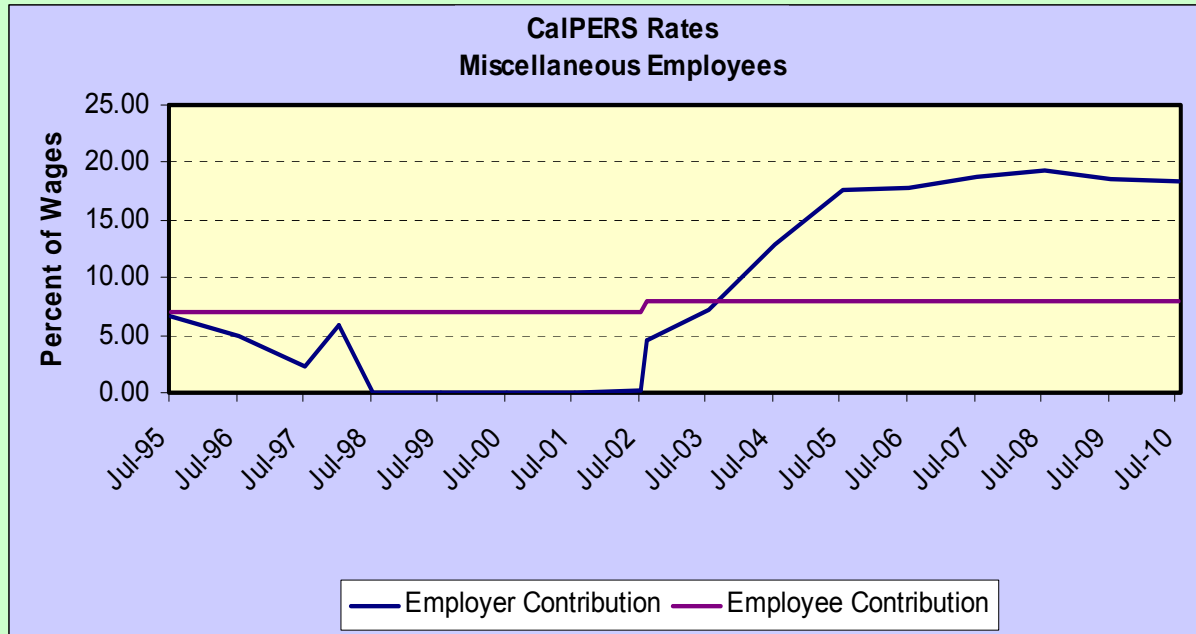
Average Employee Cost



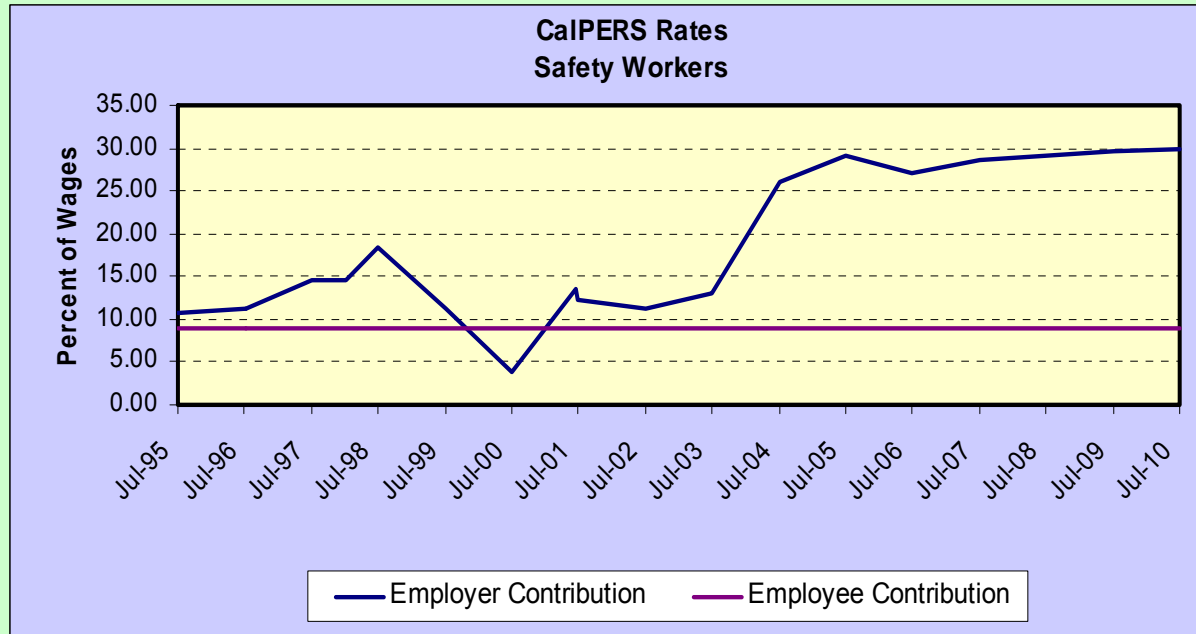
Health Benefit Allowance



CalPERS Rate History



CalPERS Rate History



CalPERS Rates

	2009/10	2010/11	2011/12
Public Safety	29.7%	30.0%	36.5%
Change from previous year			+\$1.6 million
All Others	18.6%	18.4%	22.9%
Change from previous year			+\$1.9 million

Total Change = \$3.5 million

CalPERS Rates

	FY 2010/11 <u>(actual)</u>	FY 2011/12 <u>(actual)</u>	FY 2012/13 <u>(projected)</u>
% of Payroll			
Miscellaneous	18.7%	22.9%	25.8%
Safety	30.0%	36.5%	41.2%

Fiscal Outlook

	FY 2010/11 <u>(est actual)</u>	FY 2011/12 <u>(projected)</u>	FY 2012/13 <u>(projected)</u>
\$ in millions			
Revenues	\$122.3	\$125.3	\$129.6
Transfers in	<u>6.4</u>	<u>5.7</u>	<u>5.7</u>
Total resources	128.7	131.0	135.3
Exp and transfers out	<u>132.2</u>	<u>138.8</u>	<u>142.7</u>
BUDGET GAP	(\$ 3.5)	(\$ 7.8)	(\$ 7.4)



Fiscal Outlook

- Items not included in the budget
 - No growth in employee salary/benefits
 - No CIP contributions
 - No prefunding of retiree medical benefits
- Debt rating considerations



Budget Development Strategies

1. Reduction in Overall Employee Compensation Expenses

- Reducing salaries: one-time and/or ongoing basis
- Increasing emp. contributions toward retirement
- Increasing emp. contributions to healthcare benefits
- Changing MOU provisions that increase the cost of service delivery
- Introducing lower cost pension and healthcare plans for new employees.



Budget Development Strategies

2. Transition to Alternative Service Delivery Models

➤ Strategic Sustainability Study

- Looking at employee work schedules
- Reviewing opportunities for internal consolidations, efficiencies
- Exploring shared-service models and/or consolidating services with other jurisdictions
- Examining key services that may be better provided through contractual relationship



Budget Development Strategies

3. Reduction or Elimination of Services to the Community

$$\frac{\$7.8 \text{ Million FY 2011/12 Deficit}}{\text{Average Cost of Employee of \$133,210}} = 58 \text{ FTE}$$



Budget Development Strategies

4. Revenue Enhancements

- Continuing aggressive econ. development efforts
- Implementing full cost recovery for more programs
- Increasing rates for City facilities to be closer to market rates
- Evaluating the existing fee and tax structures for relative competitiveness to other Bay Area large cities

Labor Relations 101

- Meyers-Milias-Brown Act
- Employer-Employee Relations Resolution
- Negotiations / “Meet and Confer” Process
- Bona Fide Impasse
- City Council Determination
- Imposition



Guiding Principles for Labor Negotiations



- Focus on the cost of total compensation while considering the City's fiscal condition and revenue projections

Guiding Principles for Labor Negotiations



- Use short-term and long-term strategies to curtail escalating benefit costs;

Guiding Principles for Labor Negotiations



- Maintain a consistent approach to bargaining through clear, ongoing communication of policy direction set by the City Council;

Guiding Principles for Labor Negotiations



- Remain mindful of other increasing costs, including retiree healthcare liability;

Guiding Principles for Labor Negotiations



- To the extent possible, preserve the City's ability to be a competitive employer in the local labor market; and,

Guiding Principles for Labor Negotiations



- Explore new service delivery models that align with both the priorities of the community and the City Council and result in operational efficiencies.

Next Steps

- ✓ Host informational meeting with labor groups
- ✓ Select management consultant to conduct strategic sustainability study
- ✓ Provide specific recommendations, pending Council adoption of budget strategies & guidelines
- ✓ Begin negotiations in late March
- ✓ Return to Council with FY 2011/12 recommended budget in May

Recommendation

- Adopt Budget Development Strategies and Labor Relations Guidelines for the FY 2011/12 Budget Process

Discussion